

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Bridgman	County Berrien
Fiscal Year End June 30, 2007	Opinion Date December 19, 2007	Date Audit Report Submitted to State December 27, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

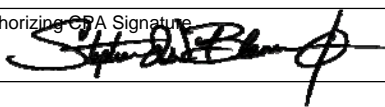
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517.787.6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49204
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801



CITY OF BRIDGMAN, MICHIGAN

Comprehensive Annual Financial Report

**For The Fiscal Year Ended
June 30, 2007**

Prepared by:

Treasurer's Department

CITY OF BRIDGMAN, MICHIGAN
For the Fiscal Year Ended June 30, 2007

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CITY OF BRIDGMAN, MICHIGAN
For the Fiscal Year Ended June 30, 2007

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INTRODUCTORY SECTION



9765 Maple Street / P.O. Box 366 / Bridgman, MI 49106 / 269•465•5144 / fax 269•465•3701

December 19, 2007

To the Honorable Mayor, Members of the City Council and Citizens of the City of Bridgman:

State law requires that every general-purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2007.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Rehman Robson, a firm of licensed certified public accountants, has issued an unqualified (“clean”) opinion on the City of Bridgman’s financial statements for the year ended June 30, 2007. The independent auditor’s report is located at the front of the financial section of this report.

Management’s discussion and analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City of Bridgman is located in Berrien County in the Southwestern corner of Michigan. The City is 16 miles north of Indiana and includes over a mile of frontage on Lake Michigan. Land area is approximately 2.9 square miles with a population of 2,428 based on the 2000 census. The City is empowered to levy a property tax on both real and personal property located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which it has done from time to time.

Bridgman was fully incorporated as a home rule city in 1949 with the passage of its charter and employs the council-manager form of government. Policy-making and legislative authority are vested in a governing Council consisting of the mayor and six other members, all elected on a non-partisan basis. Council members serve four-year staggered terms, with three Council members elected one year and four the next year. The mayor is elected to a four-year term within the council. The Council members are elected at-large.

The City of Bridgman provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets and other infrastructure; water treatment and distribution; garbage removal, economic development; recreational and cultural activities.

The Council is required to adopt a final budget by no later than the close of the fiscal year. This annual budget serves as the foundation for the City of Bridgman's financial planning and control. The budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may transfer resources within a department as they see fit. Transfers between departments, however, need special approval from the City Commission.

Local economy

The City of Bridgman has a stable economic base consisting of a mix of industrial/commercial, residential and tourism-based enterprises. Land use in City indicates that the primary mix is 50% residential, 30% industrial/commercial with the remaining 20% in recreational, government and vacant land.

The City's water system has capacity that exceeds the average daily usage. The water plant has a maximum daily capacity of 1.4 million gallons and an average daily consumption of 320,000 gallons. In fiscal 2004, the City recorded a bond issuance that allowed for the expansion of the Galien River Sanitary District. This wastewater system has a maximum daily capacity of 500,000 with an average daily treatment of 295,000 gallons.

Bridgman has shown regular growth since 1960 with a net population change of 67% over the 40 years (based on the 2000 census data). From 1990 to 2000, the City grew 13.5% and was the only city in Berrien County that grew during that decade.

Long-term financial planning

Manufacturing facilities are encouraged to locate in the City through the approval of Industrial Facilities Tax Abatements and other measures. However, similar to other local units of government around the County, The City of Bridgman is experiencing decreases in state revenue sharing. The General Fund's fiscal 2007 ending fund balance amounts to approximately 88% of the fund's annual expenditures. This percentage of fund balance is expected to be maintained in the future through prudent management of its financial resources.

Cash management policies and practices

The City is conservative in its approach to cash management. In general, cash is deposited upon receipt into interest-bearing cash-management accounts. Due to the federal limits placed on the number of withdrawals executed on interest-bearing accounts within a given month, there are funds that cannot utilize them. Protecting taxpayers against potential deficits is emphasized in the City's investment strategy.

Risk management

Under a comprehensive plan of risk management, the City maintains property, liability and workers' compensation insurance coverage through the Michigan Municipal League insurance pool.

Pension benefits

In fiscal 2006, the City joined Municipal Employees' Retirement System's defined benefits retirement plan. Additional information on the City's retirement system can be found in Note IV.C. in the notes to the financial statements.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the CITY OF BRIDGMAN for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2006. This was the sixth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

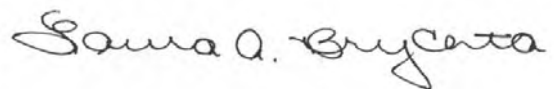
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance and administration department. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the mayor and the governing council for their unfailing support for maintaining the highest standards of professionalism in the management of the CITY OF BRIDGMAN'S finances.

Respectfully submitted,



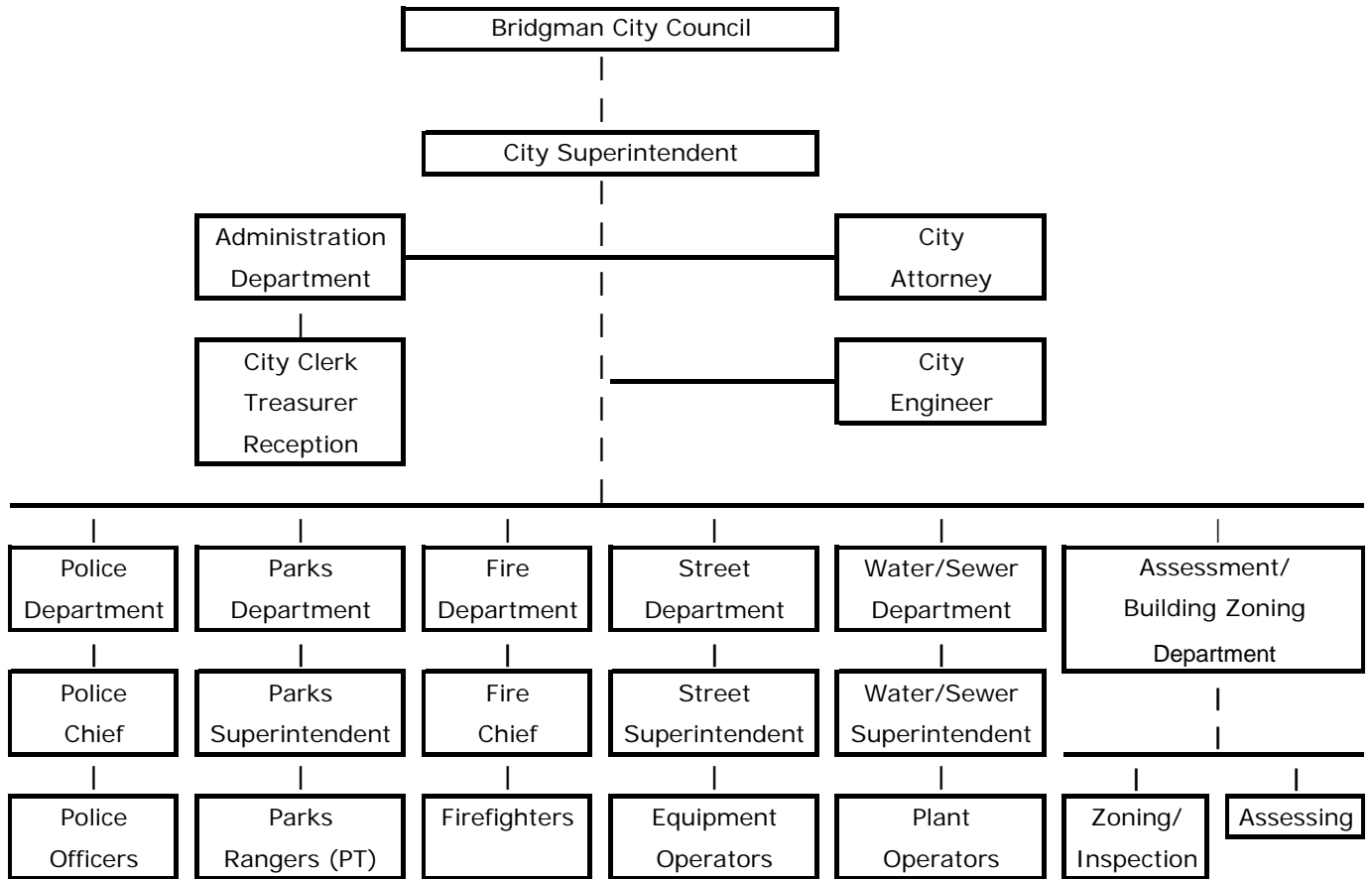
Aaron L. Anthony
City Superintendent



Laura A. Brychta
Treasurer

CITY OF BRIDGMAN, MICHIGAN

Organizational Chart



CITY OF BRIDGMAN, MICHIGAN
List of Elected and Appointed Officials
For the Fiscal Year Ended June 30, 2007

Elected Officials

Mayor
Mayor Pro Tem
Council Member
Council Member
Council Member
Council Member
Council Member

Ron Birmingham
William H. Boyd
Kathy Ramso
Jim A. Catania
Dorothea Crocker
Linda Gedeon-Kuhn
Robert Liskey

Appointed Officials

City Superintendent
Assessor
Clerk
Utility Services & Parks Superintendent
Public Works Superintendent
Police Chief
Fire Chief
Treasurer
Building Inspector

Aaron L. Anthony
Nancy Williams
Pamela Hahaj
Tim M. Kading
Richard H. Knuth
Ted Post
Richard H. Knuth
Laura A. Brychta
William H. Boyd, Jr.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**City of Bridgman
Michigan**

For its Comprehensive Annual

Financial Report

for the Fiscal Year Ended

June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

FINANCIAL SECTION



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



Independent Auditors' Report

December 19, 2007

The Honorable Mayor and
Members of the City Council
City of Bridgman
Bridgman, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***City of Bridgman, Michigan***, as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the City of Bridgman, Michigan, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparisons for the general fund, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis

As management of the *City of Bridgman, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-iii of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$11,382,520 (net assets), an increase of \$182,985 over the prior year. Of this amount, \$1,753,778 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,318,213, an increase of \$357,319 over fiscal 2006. Approximately 99.4% of this total amount, or \$2,304,772 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, the City's proprietary funds reported combined total net assets of \$3,119,495, a decrease of \$41,042 from fiscal 2006. Unrestricted net assets deficit totals \$306,417.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and highways and streets. The business-type activities of the City include water and sewer operations as well as parks and recreation.

The government-wide financial statements include not only the City itself (known as the primary government), but also two component units. The Brownfield Development Authority is a legally separate authority for which the City is financially accountable. The Authority had no assets as of June 30, 2007 and no activities for the year then ended. The City of Bridgman Building Authority, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 13-15 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Following the governmental funds balance sheet and the governmental funds statement of revenue, expenditures, and changes in fund balances, reconciliations are provided to facilitate this comparison between governmental funds and governmental activities.

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the general fund. Non-major governmental funds, which include major streets, local streets, public improvements, economic development, building authority and general debt service funds, are reported in a combined format on these statements.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 16-21 of this report.

Proprietary funds. The City maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sanitary sewer and water distribution operations, as well as parks and recreation. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its vehicle and equipment maintenance activities. Because this service predominantly benefits governmental rather than business-type functions, the assets and liabilities of the internal service fund have been included within governmental activities in the government-wide statement of net assets.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water operations, as well as parks and recreation, all of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 22-27 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The City only accounts for one type of fiduciary fund, which is an *agency* fund. This fund is used to account for tax collections by the City of Bridgman on behalf of other governments. Agency funds are unlike other types of funds and report only assets and liabilities. Therefore, they do not have a measurement focus, but do, however, use the accrual basis of accounting to recognize receivables and payables.

The City's Agency Fund had no assets or liabilities at year end, and accordingly, no fiduciary financial statements are presented in the basic financial statements.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-47 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Bridgman, assets exceeded liabilities by \$11,382,520 at the close of fiscal 2007, an increase of \$182,985 over fiscal 2006.

City of Bridgman's Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 2,755,121	\$ 2,503,958	\$ 3,117,140	\$ 3,169,226	\$ 5,872,261	\$ 5,673,184
Capital assets, net	5,928,318	6,156,380	3,535,912	3,706,440	9,464,230	9,862,820
Total assets	8,683,439	8,660,338	6,653,052	6,875,666	15,336,491	15,536,004
Long-term liabilities outstanding	348,817	587,664	3,358,612	3,557,228	3,707,429	4,144,892
Other liabilities	135,635	95,108	110,907	96,469	246,542	191,577
Total liabilities	484,452	682,772	3,469,519	3,653,697	3,953,971	4,336,469
Net assets:						
Invested in capital assets, net of related debt	5,611,635	5,597,324	3,425,912	3,491,440	9,037,547	9,088,764
Restricted	591,195	520,900	-	-	591,195	520,900
Unrestricted	1,996,157	1,859,342	(242,379)	(269,471)	1,753,778	1,589,871
Total net assets	\$ 8,198,987	\$ 7,977,566	\$ 3,183,533	\$ 3,221,969	\$ 11,382,520	\$ 11,199,535

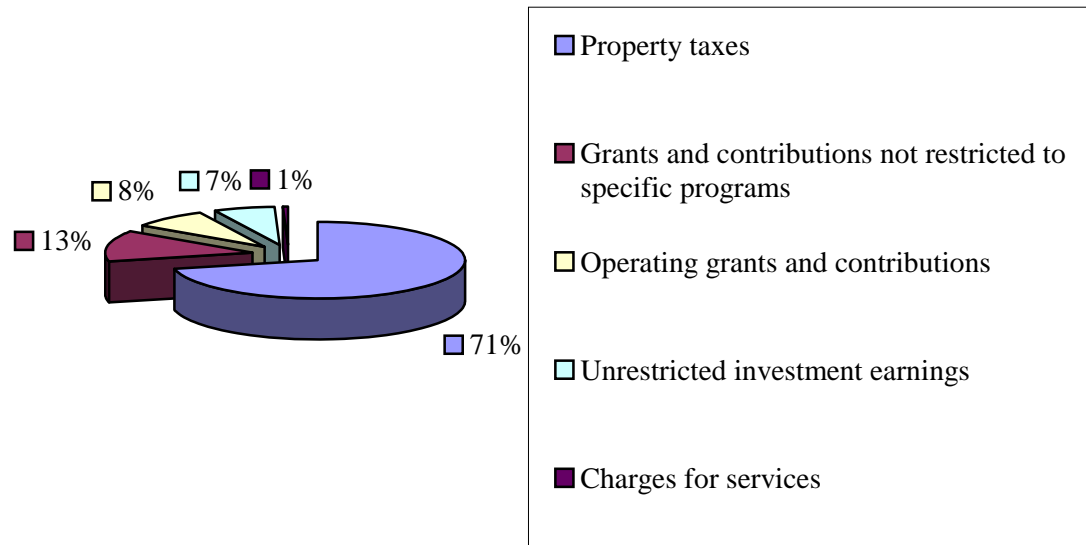
By far the largest portion of the City's net assets (79 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, or approximately five percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (16 percent or \$1,753,778) may be used to meet the government's ongoing obligations to citizens and creditors.

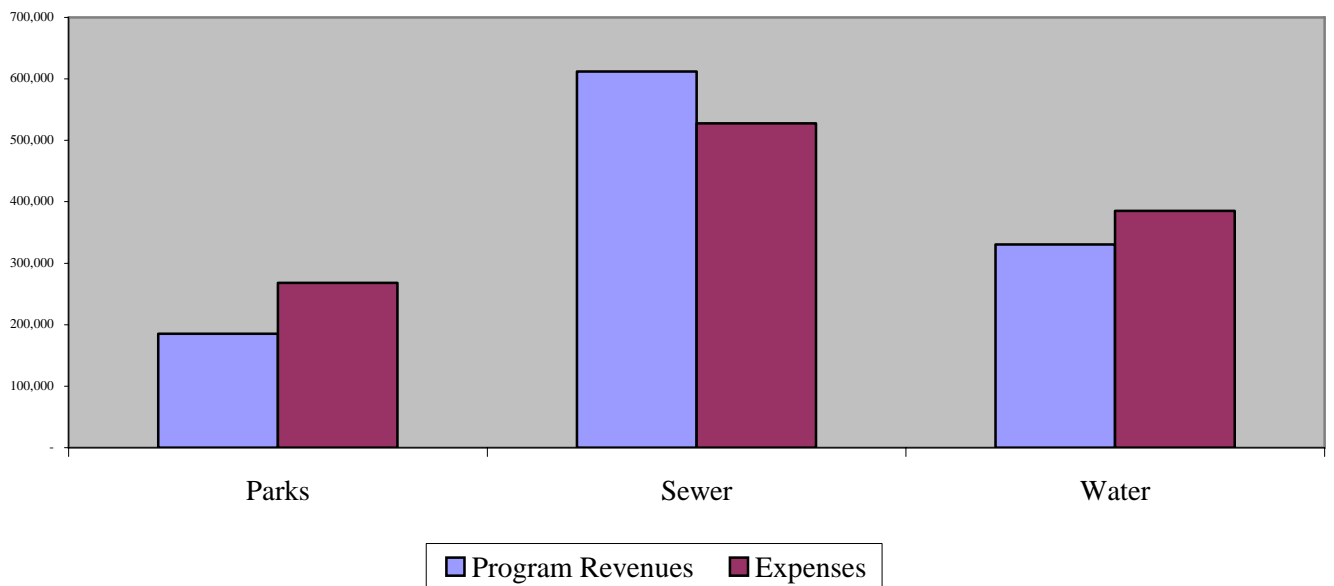
City of Bridgman's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue:						
Program revenue:						
Charges for services	\$ 11,019	\$ 16,948	\$ 1,125,378	\$ 1,068,727	\$ 1,136,397	\$ 1,085,675
Operating grants and contributions	176,779	181,721	-	-	176,779	181,721
Capital grants and contributions	-	20,232	-	-	-	20,232
General revenue:						
Property taxes	1,489,802	1,481,646	-	-	1,489,802	1,481,646
Grants and contributions not restricted to specific programs	268,726	258,436	2,483	2,954	271,209	261,390
Other	137,489	98,492	14,159	10,068	151,648	108,560
Total revenue	2,083,815	2,057,475	1,142,020	1,081,749	3,225,835	3,139,224
Expenses:						
General government	560,048	549,009	-	-	560,048	549,009
Public safety	521,868	517,617	-	-	521,868	517,617
Public works	381,149	428,881	-	-	381,149	428,881
Highways and streets	384,632	399,402	-	-	384,632	399,402
Interest on long-term debt	14,697	26,349	-	-	14,697	26,349
Parks	-	-	267,916	260,185	267,916	260,185
Sewer	-	-	527,498	607,269	527,498	607,269
Water	-	-	385,042	367,445	385,042	367,445
Total expenses	1,862,394	1,921,258	1,180,456	1,234,899	3,042,850	3,156,157
Increase in net assets	221,421	136,217	(38,436)	(153,150)	182,985	(16,933)
Net assets, beginning of year	7,977,566	7,841,349	3,221,969	3,375,119	11,199,535	11,216,468
Net assets, end of year	\$ 8,198,987	\$ 7,977,566	\$ 3,183,533	\$ 3,221,969	\$ 11,382,520	\$ 11,199,535

Revenue by Source – Governmental Activities



Revenue and Expenses – Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,318,213, an increase of \$357,319 in comparison with the prior year. Approximately 99.4 percent of this total amount, or \$2,304,772, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance, \$13,441, is reserved to indicate that it is not available for new spending because it has already been committed to pay for other restricted purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,733,181, while total fund balance was \$1,745,519. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 111% of total general fund expenditures and transfers out.

The fund balance of the City's general fund increased by \$309,990 during the current fiscal year. This increase is partly due to transfers out that amounted to \$155,000 in fiscal 2006 and only \$25,000 this fiscal year, a difference of \$130,000. Transfers notwithstanding, revenue exceeded expenditures in fiscal 2006 by \$334,990, a decrease of \$16,673 from fiscal 2006.

The nonmajor governmental funds, which include major streets, local streets, public improvement, economic development, general debt service and building authority debt service funds, have a year-end fund balance of \$572,694. Transfers notwithstanding, this group of funds experienced an increase in their year-end fund balance totaling \$22,329.

Proprietary funds. Unrestricted net assets of the parks, sewer and water enterprise funds at the end of the year amounted to \$12,142, (\$596,679) and \$278,120, respectively.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its government and business-type activities as of June 30, 2007, amounted to \$9,464,230 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads and highways. The City's outlay in capital assets for the current fiscal year amounted to \$218,234.

Capital asset events during the current fiscal year included the following:

- The purchase of a loader with a plow by our street department for \$93,650
- The purchase of a Ford F-350 by our street department for \$43,000
- The replacement of a police patrol car for \$27,880
- Equipping our police patrol vehicles with DVD systems for \$12,218
- The purchase of a Ford F-150 for our Water Department for \$20,497

City of Bridgman's Capital Assets
(net of depreciation)

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 134,600	\$ 134,600	\$ 59,293	\$ 59,293	\$ 193,893	\$ 193,893
Buildings and systems	706,373	743,886	3,476,619	3,646,241	4,182,992	4,390,127
Vehicles and equipment	1,180,188	1,117,203	-	906	1,180,188	1,118,109
Infrastructure	3,907,157	4,160,691	-	-	3,907,157	4,160,691
Total	<u>\$ 5,928,318</u>	<u>\$ 6,156,380</u>	<u>\$ 3,535,912</u>	<u>\$ 3,706,440</u>	<u>\$ 9,464,230</u>	<u>\$ 9,862,820</u>

Additional information on the City's capital assets can be found in note III.C. on pages 38-39 of this report.

Long-term debt. At the end of the current fiscal year, the City had total installment debt outstanding of \$3,657,143. Of this amount, \$3,230,460 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds), and installment purchase contracts.

City of Bridgman's Outstanding Debt

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General obligation bonds	\$ -	\$ 175,000	\$3,230,460	\$3,324,990	\$3,230,460	\$3,499,990
Revenue bonds	-	-	110,000	215,000	110,000	215,000
Installment purchase contracts	316,683	384,056	-	-	316,683	384,056
Total	\$ 316,683	\$ 559,056	\$3,340,460	\$3,539,990	\$3,657,143	\$4,099,046

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total taxable value. The current debt limitation for the City is \$10,421,607, which is significantly in excess of the City's outstanding general obligation debt of \$3,230,460.

Additional information on the City's long-term debt can be found in note III.F on pages 40-43 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2008 fiscal year:

- Projections of commercial, industrial, tourism and residential growth potential;
- Economic indicators for the region and local development projects currently proposed and/or underway;
- Growth and development trends as a result of the 2000 Census;
- Projected staff and capital improvements projects by the City;
- Available taxing, bonding and grant resources.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, 9765 Maple Street, P.O. Box 366, Bridgman, MI 49106.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF BRIDGMAN, MICHIGAN

Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 2,599,300	\$ 261,475	\$ 2,860,775
Receivables	138,911	173,024	311,935
Internal balances	2,631	(2,631)	-
Prepaid items and other assets	14,279	139,214	153,493
Investment in Galien River Sanitary District	-	2,546,058	2,546,058
Capital assets not being depreciated	134,600	59,293	193,893
Capital assets being depreciated, net	5,793,718	3,476,619	9,270,337
Total assets	<u>8,683,439</u>	<u>6,653,052</u>	<u>15,336,491</u>
Liabilities			
Accounts payable and accrued liabilities	132,172	110,907	243,079
Unearned revenue	3,463	-	3,463
Long-term debt:			
Due within one year	109,756	213,072	322,828
Due in more than one year	239,061	3,145,540	3,384,601
Total liabilities	<u>484,452</u>	<u>3,469,519</u>	<u>3,953,971</u>
Net assets			
Invested in capital assets, net of related debt	5,611,635	3,425,912	9,037,547
Restricted for:			
Debt service	300,417	-	300,417
Major and local streets	290,778	-	290,778
Unrestricted (deficit)	1,996,157	(242,379)	1,753,778
Total net assets	<u>\$ 8,198,987</u>	<u>\$ 3,183,533</u>	<u>\$ 11,382,520</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2007

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
General government	\$ 560,048	\$ 2,008	\$ -	\$ (558,040)
Public safety	521,868	9,011	753	(512,104)
Public works	381,149	-	2,200	(378,949)
Highways and streets	384,632	-	173,826	(210,806)
Interest on long-term debt	14,697	-	-	(14,697)
Total governmental activities	<u>1,862,394</u>	<u>11,019</u>	<u>176,779</u>	<u>(1,674,596)</u>
Business-type activities:				
Parks	267,916	182,776	-	(85,140)
Sewer	527,498	612,093	-	84,595
Water	385,042	330,509	-	(54,533)
Total business-type activities	<u>1,180,456</u>	<u>1,125,378</u>	<u>-</u>	<u>(55,078)</u>
Total	<u>\$ 3,042,850</u>	<u>\$ 1,136,397</u>	<u>\$ 176,779</u>	<u>\$ (1,729,674)</u>

continued...

CITY OF BRIDGMAN, MICHIGAN

Statement of Activities (Concluded)

For the Year Ended June 30, 2007

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Changes in net assets			
Net expense	<u>\$ (1,674,596)</u>	<u>\$ (55,078)</u>	<u>\$ (1,729,674)</u>
General revenues:			
Property taxes	1,489,802	-	1,489,802
Grants and contributions not restricted to specific programs	268,726	2,483	271,209
Unrestricted investment earnings	<u>137,489</u>	<u>14,159</u>	<u>151,648</u>
Total general revenues	<u>1,896,017</u>	<u>16,642</u>	<u>1,912,659</u>
Change in net assets	221,421	(38,436)	182,985
Net assets, beginning of year	<u>7,977,566</u>	<u>3,221,969</u>	<u>11,199,535</u>
Net assets, end of year	<u><u>\$ 8,198,987</u></u>	<u><u>\$ 3,183,533</u></u>	<u><u>\$ 11,382,520</u></u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

CITY OF BRIDGMAN, MICHIGAN
Balance Sheet
Governmental Funds
June 30, 2007

	General	Nonmajor Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ 1,727,506	\$ 581,183	\$ 2,308,689
Special assessments receivable	1,014	40,928	41,942
Due from other governments	68,735	28,234	96,969
Due from other funds	80,073	43,667	123,740
Prepaid items	12,338	1,103	13,441
	<hr/>	<hr/>	<hr/>
<u>TOTAL ASSETS</u>	\$ 1,889,666	\$ 695,115	\$ 2,584,781
	<hr/>	<hr/>	<hr/>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ 81,108	\$ 7,959	\$ 89,067
Accrued liabilities	33,562	1,463	35,025
Due to other funds	25,000	72,071	97,071
Deferred revenue	4,477	40,928	45,405
	<hr/>	<hr/>	<hr/>
Total liabilities	144,147	122,421	266,568
	<hr/>	<hr/>	<hr/>
Fund balances:			
Reserved for prepaid items	12,338	1,103	13,441
Unreserved:			
Undesignated	1,733,181	-	1,733,181
Undesignated, reported in nonmajor:			
Special revenue funds	-	313,116	313,116
Debt service funds	-	258,475	258,475
	<hr/>	<hr/>	<hr/>
Total fund balances	1,745,519	572,694	2,318,213
	<hr/>	<hr/>	<hr/>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 1,889,666	\$ 695,115	\$ 2,584,781
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2007

Fund balances - total governmental funds	\$ 2,318,213
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets not being depreciated	134,600
Add: capital assets being depreciated	14,324,927
Deduct: accumulated depreciation	(9,699,325)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred special assessments	41,942
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	1,110,764
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: compensated absences	<u>(32,134)</u>
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Net assets of governmental activities	<u><u>\$ 8,198,987</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 1,489,802	\$ -	\$ 1,489,802
Special assessments	2,249	15,270	17,519
Intergovernmental	223,806	173,826	397,632
Charges for services	2,443	-	2,443
Investment earnings	94,574	42,915	137,489
Licenses and permits	45,673	-	45,673
Fines and forfeitures	8,576	-	8,576
Rent	-	175,000	175,000
Other	-	2,200	2,200
Total revenues	1,867,123	409,211	2,276,334
Expenditures			
Current:			
General government	363,227	-	363,227
Public safety	495,713	-	495,713
Public works	219,599	-	219,599
Highways and streets	-	131,098	131,098
Other	453,594	76,328	529,922
Debt service:			
Principal	-	175,000	175,000
Interest and fiscal charges	-	4,456	4,456
Total expenditures	1,532,133	386,882	1,919,015
Revenues over expenditures	334,990	22,329	357,319
Other financing sources (uses)			
Transfers in	-	25,000	25,000
Transfers out	(25,000)	-	(25,000)
Total other financing sources (uses)	(25,000)	25,000	-
Net change in fund balances	309,990	47,329	357,319
Fund balances, beginning of year	1,435,529	525,365	1,960,894
Fund balances, end of year	\$ 1,745,519	\$ 572,694	\$ 2,318,213

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2007

Net change in fund balances - total governmental funds	\$ 357,319
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Deduct: depreciation expense	(294,062)
Governmental funds record revenue from special assessments as they are collected. However, in the statement of activities, special assessments are recognized as revenue in the year levied.	
Deduct: current year collections on deferred special assessments	(17,519)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Add: principal payments on long-term liabilities	175,000
An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.	
Deduct: interest expense from governmental internal service fund	(11,625)
Add: net operating income from governmental activities in the internal service fund	14,848
Deduct: loss on disposal of capital assets	(398)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Add: decrease in accrued interest payable on bonds	1,384
Deduct: increase in the accrual for compensated absences	(3,526)
Change in net assets of governmental activities	<u>\$ 221,421</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2007

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	\$ 1,536,000	\$ 1,480,600	\$ 1,489,802	\$ 9,202
Special assessments	1,700	-	2,249	2,249
Intergovernmental	228,000	209,900	223,806	13,906
Charges for services	4,700	2,900	2,443	(457)
Investment earnings	60,300	80,000	94,574	14,574
Licenses and permits	28,000	44,000	45,673	1,673
Fines and forfeitures	10,000	8,400	8,576	176
Total revenues	1,868,700	1,825,800	1,867,123	41,323
Expenditures				
General government:				
City Commission	33,800	28,300	24,914	(3,386)
Superintendent	96,700	95,700	91,496	(4,204)
Elections	4,200	8,000	4,798	(3,202)
Assessor	25,200	23,800	22,172	(1,628)
General office	116,400	122,600	119,709	(2,891)
Building and grounds	152,500	95,300	82,571	(12,729)
Planning commission	9,900	4,300	2,961	(1,339)
Zoning administrator	15,600	14,900	14,606	(294)
Total general government	454,300	392,900	363,227	(29,673)
Public safety:				
Police	368,400	326,500	313,987	(12,513)
Fire	161,500	183,200	155,127	(28,073)
Building inspector	21,400	21,300	26,599	5,299
Total public safety	551,300	531,000	495,713	(35,287)
Public works	237,200	227,700	219,599	(8,101)
Other - general administration	480,000	460,600	453,594	(7,006)
Total expenditures	1,722,800	1,612,200	1,532,133	(80,067)
Revenues over expenditures	145,900	213,600	334,990	121,390

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CITY OF BRIDGMAN, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Concluded)
General Fund
For the Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other financing sources (uses)				
Transfers out	<u>\$ (430,000)</u>	<u>\$ (135,000)</u>	<u>\$ (25,000)</u>	<u>\$ (110,000)</u>
Net change in fund balance	(284,100)	78,600	309,990	231,390
Fund balance, beginning of year	<u>1,435,529</u>	<u>1,435,529</u>	<u>1,435,529</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 1,151,429</u></u>	<u><u>\$ 1,514,129</u></u>	<u><u>\$ 1,745,519</u></u>	<u><u>\$ 231,390</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN

Statement of Net Assets

Proprietary Funds

June 30, 2007

	Business-type Activities - Enterprise Funds				Governmental Activities
	Parks	Sewer	Water	Total	Vehicle and Equipment Internal Service Fund
Assets					
Current assets:					
Cash and cash equivalents	\$ 42,370	\$ -	\$ 219,105	\$ 261,475	\$ 290,611
Accounts receivable - customers	-	106,611	56,215	162,826	-
Special assessments receivable	-	-	10,198	10,198	-
Due from other funds	-	-	2,156	2,156	40,000
Inventories	-	-	8,795	8,795	-
Prepaid items	1,289	1,722	5,966	8,977	838
Total current assets	43,659	108,333	302,435	454,427	331,449
Noncurrent assets:					
Capital assets not being depreciated	19,610	18,430	21,253	59,293	-
Capital assets being depreciated, net	604,691	1,077,849	1,794,079	3,476,619	1,168,116
Investment in Galien River Sanitary District	-	2,546,058	-	2,546,058	-
Other assets - unamortized discount	-	114,795	6,647	121,442	-
Total noncurrent assets	624,301	3,757,132	1,821,979	6,203,412	1,168,116
Total assets	667,960	3,865,465	2,124,414	6,657,839	1,499,565
Liabilities					
Current liabilities:					
Accounts payable	13,995	40,361	10,261	64,617	6,724
Accrued liabilities	9,499	23,734	8,087	41,320	1,356
Due to other funds	-	68,825	-	68,825	-
Deposits payable	-	2,485	2,485	4,970	-
Compensated absences, current portion	2,867	-	3,620	6,487	-
Bonds and notes payable, current portion	-	96,585	110,000	206,585	89,561
Total current liabilities	26,361	231,990	134,453	392,804	97,641
Noncurrent liabilities:					
Compensated absences, net of current portion	5,156	-	6,509	11,665	-
Bonds and notes payable, net of current portion	-	3,133,875	-	3,133,875	227,122
Total noncurrent liabilities	5,156	3,133,875	6,509	3,145,540	227,122
Total liabilities	31,517	3,365,865	140,962	3,538,344	324,763
Net Assets					
Invested in capital assets, net of related debt	624,301	1,096,279	1,705,332	3,425,912	851,433
Unrestricted (deficit)	12,142	(596,679)	278,120	(306,417)	323,369
Total net assets	\$ 636,443	\$ 499,600	\$ 1,983,452	\$ 3,119,495	\$ 1,174,802

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN
Reconciliation of Net Assets on the Statement of
Net Assets for Enterprise Funds to Net Assets of
Business-type Activities on the Statement of Net Assets
June 30, 2007

Net assets - enterprise funds	\$ 3,119,495
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Amounts reported for business-type activities in the statement of net assets are different because:

An internal service fund is used by management to charge the costs of certain equipment usage to individual enterprise funds. The portion of the net assets of the internal service fund attributable to these charges are included in business-type activities in the statement of net assets.

Add: net assets of business-type activities accounted for in the internal service fund	<u>64,038</u>
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Net assets of business-type activities	<u><u>\$ 3,183,533</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For the Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds				Governmental Activities Vehicle and Equipment Internal Service Fund
	Parks	Sewer	Water	Total	
Operating revenues					
Charges for services	\$ 182,651	\$ 612,093	\$ 282,509	\$ 1,077,253	\$ 288,000
Rent	125	-	48,000	48,125	-
Other	2,483	-	-	2,483	-
Total operating revenues	185,259	612,093	330,509	1,127,861	288,000
Operating expenses					
Operations	211,905	346,010	292,918	850,833	132,054
Depreciation	57,405	42,172	70,951	170,528	138,492
Total operating expenses	269,310	388,182	363,869	1,021,361	270,546
Operating income (loss)	(84,051)	223,911	(33,360)	106,500	17,454
Non-operating revenues (expenses)					
Investment income	-	4,300	9,859	14,159	-
Loss on disposal of capital assets	-	-	-	-	(398)
Interest expense	-	(139,316)	(22,385)	(161,701)	(11,625)
Total non-operating revenues (expenses)	-	(135,016)	(12,526)	(147,542)	(12,023)
Change in net assets	(84,051)	88,895	(45,886)	(41,042)	5,431
Net assets, beginning of year	720,494	410,705	2,029,338	3,160,537	1,169,371
Net assets, end of year	\$ 636,443	\$ 499,600	\$ 1,983,452	\$ 3,119,495	\$ 1,174,802

The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN
Reconciliation of the Statement of Revenues, Expenses
and Changes in Fund Net Assets of Proprietary Funds
to the Statement of Activities
For the Year Ended June 30, 2007

Net change in net assets - total enterprise funds	\$ (41,042)
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Amounts reported for *business-type activities* in the statement of activities are different because:

An internal service fund is used by management to charge the costs of certain equipment usage to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with business-type activities.

Add: net operating income from business-type activities in the internal service fund	<u>2,606</u>
--	--------------

Change in net assets of business-type activities	<u><u>\$ (38,436)</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF BRIDGMAN, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds				Governmental Activities Vehicle and Equipment Internal Service Fund
	Parks	Sewer	Water	Total	
Cash flows from operating activities					
Cash received from customers and others	\$ 185,209	\$ 604,922	\$ 329,180	\$ 1,119,311	\$ -
Cash received from interfund services	-	-	-	-	288,000
Cash payments to employees	(85,276)	(39,899)	(122,294)	(247,469)	(27,687)
Cash payments to suppliers for goods and services	(107,924)	(340,695)	(147,895)	(596,514)	(143,302)
Cash payments for interfund services	(23,000)	-	(20,000)	(43,000)	-
Net cash provided (used) by operating activities	(30,991)	224,328	38,991	232,328	117,011
Cash flows from investing activities					
Investment income	-	4,300	9,859	14,159	-
Cash flows from capital and related financing activities					
Purchase of capital assets	-	-	-	-	(218,234)
Proceeds from sale of capital assets	-	-	-	-	13,344
Bond/note principal payments	-	(94,530)	(105,000)	(199,530)	(87,774)
Bond/note interest payments	-	(134,098)	(11,390)	(145,488)	(11,625)
Proceeds from debt issuance	-	-	-	-	20,401
Net cash provided (used) by capital and related financing activities	-	(228,628)	(116,390)	(345,018)	(283,888)
Net increase (decrease) in cash and cash equivalents	(30,991)	-	(67,540)	(98,531)	(166,877)
Cash and cash equivalents, beginning of year	73,361	-	286,645	360,006	457,488
Cash and cash equivalents, end of year	\$ 42,370	\$ -	\$ 219,105	\$ 261,475	\$ 290,611

Continued...

CITY OF BRIDGMAN, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds				Governmental Activities
	Parks	Sewer	Water	Total	Vehicle and Equipment Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ (84,051)	\$ 223,911	\$ (33,360)	\$ 106,500	\$ 17,454
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	57,405	42,172	70,951	170,528	138,492
Changes in assets and liabilities:					
Accounts receivable - customers	-	(7,316)	(2,930)	(10,246)	-
Special assessments receivable	-	-	1,456	1,456	-
Due from other funds	-	-	(2,156)	(2,156)	(40,000)
Inventories	-	-	(514)	(514)	-
Prepaid items	(556)	(852)	(2,804)	(4,212)	(153)
Investment in Galien River Sanitary District	-	(12,018)	-	(12,018)	-
Accounts payable	(5,171)	11,112	7,624	13,565	1,383
Accrued liabilities	1,648	(464)	(551)	633	(165)
Due to other funds	-	(32,362)	-	(32,362)	-
Deposits payable	(50)	145	145	240	-
Accrued compensated absences	(216)	-	1,130	914	-
Net cash provided (used) by operating activities	\$ (30,991)	\$ 224,328	\$ 38,991	\$ 232,328	\$ 117,011

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BRIDGMAN, MICHIGAN

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Notes to the Financial Statements

For the Year Ended June 30, 2007

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CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Bridgman, Michigan is a municipal corporation governed by a seven-member council and by an appointed City Superintendent. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations.

Blended component unit:

The Building Authority is governed by a three-member board appointed by the City Commission. Its sole function is to oversee the financing and construction, if any, of the City's public buildings; therefore, it is reported as if it were part of the primary government.

Discretely presented component unit:

The City's Brownfield Authority was created to revitalize selected environmentally distressed areas within the City limits. The Authority had no assets as of June 30, 2007, and no activity for the period then ended.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Intergovernmental revenues are accrued when earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the City reports the following fund types:

Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt service funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The City reports the following major proprietary funds:

The *parks fund* accounts for the operation and maintenance of the City's parks and recreational facilities.

The *sewer fund* accounts for the City's participation in the Galien River Sanitary District.

The *water fund* accounts for the activities of the City's water distribution and treatment system.

Additionally, the City reports the following fund types:

The *internal service fund* accounts for fleet and equipment management to other departments on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The City's investments during the year consisted solely of bank investment pools. The bank investment pools are regulated by the Michigan Banking Act and the fair value of the position in the pool is the same as the value of the pooled shares.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

2. Interfund receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items constructed or acquired after 1980), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30
Public domain infrastructure	50
System infrastructure	50
Vehicles	3-20
Equipment	5-10

5. *Compensated absences*

It is the City's policy to not permit employees to accumulate unused vacation from year to year. Any vacation that is not used within the year following the year within which it was earned is considered lapsed. Non-lapsed vacation time and 1/3 of sick leave accumulated prior to June 30, 1999 are accrued in the government-wide and proprietary fund financial statements. The City does not permit accrual of sick leave earned after June 30, 1999. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

6. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are externally imposed by creditors, grantors, contributors or laws or regulations of other governments. Designations of fund balance represent tentative management plans that are subject to change. In the government-wide financial statements, net assets reported as “restricted” are subject to externally imposed restrictions by laws and regulations or grantors.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

On or before the third Monday in May of each year, the City Superintendent must present the proposed budget to the City Commission for review. The Commission holds public hearings and a final budget must be prepared and adopted no later than the third Monday in June.

The appropriated budget is prepared by fund and department. The City Superintendent may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Commission. The legal level of budgetary control is the department level. Certain supplemental budgetary appropriations were made during the year which were not considered material.

B. Excess of expenditures over appropriations

For the year ended June 30, 2007, expenditures exceeded appropriations in the General Fund Building Inspector Department by \$5,299.

The Major Streets Special Revenue Fund exceeded appropriations by \$455 in the Traffic Services Department. The Local Streets Special Revenue Fund exceeded appropriations by \$713 in the Routine Maintenance Department. The Public Improvements Special Revenue Fund exceeded appropriations by \$20,350. The Economic Development Special Revenue Fund exceeded appropriations by \$11,578.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets follows:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 2,597,677
Investments in mutual and cash management funds	262,698
Cash on hand	<u>400</u>
Statement of Net Assets	<u>\$ 2,860,775</u>

The City chooses to disclose its investments by specifically identifying each. As of year end, the City had the following deposits and investments.

	Carrying Amount (Fair Value)	<u>Credit Rating</u>
Mutual and cash management funds (uncategorized as to risk):		
LaSalle Bank Public Funds Investment Trust	\$ 163,146	AAAm (S&P)
JP Morgan Chase Governmental Money Market	<u>99,552</u>	AAA (Moody's)
	<u>\$ 262,698</u>	

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings have been identified above for the City's investments.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$2,496,763 of the City's bank balance of \$2,596,763 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Receivables

Receivables are comprised of the following:

	Governmental Activities	Business- Type Activities
Due from customers	\$ -	\$ 162,826
Special assessments	41,942	10,198
Due from other governments	<u>96,969</u>	<u>-</u>
	<u>\$ 138,911</u>	<u>\$ 173,024</u>
Due in more than one year:		
Special assessments	<u>\$ 29,884</u>	<u>\$ 8,741</u>

Government funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, deferred revenue of \$41,942 was recognized in governmental funds, of which \$1,014 was recognized in the general fund and \$40,928 was recognized in nonmajor governmental funds. In addition, the general fund recognized \$3,463 in unearned revenue related to unspent grant proceeds.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2007, was as follows:

Primary Government

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 134,600	\$ -	\$ -	\$ 134,600
Capital assets, being depreciated:				
Buildings and improvements	1,630,400	-	-	1,630,400
Equipment	2,459,383	218,234	(334,579)	2,343,038
Infrastructure	12,664,372	-	-	12,664,372
Total capital assets being depreciated	16,754,155	218,234	(334,579)	16,637,810
Less accumulated depreciation for:				
Buildings and improvements	(886,514)	(37,513)	-	(924,027)
Equipment	(1,342,180)	(141,507)	320,837	(1,162,850)
Infrastructure	(8,503,681)	(253,534)	-	(8,757,215)
Total accumulated depreciation	(10,732,375)	(432,554)	320,837	(10,844,092)
Total capital assets being depreciated, net	6,021,780	(214,320)	(13,742)	5,793,718
Governmental activities capital assets, net	<u>\$ 6,156,380</u>	<u>\$ (214,320)</u>	<u>\$ (13,742)</u>	<u>\$ 5,928,318</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 59,293	\$ -	\$ -	\$ 59,293
Capital assets, being depreciated:				
Buildings, improvements, and systems	7,098,278	-	(5,168)	7,093,110
Equipment	391,338	-	(339,910)	51,428
Total capital assets being depreciated	7,489,616	-	(345,078)	7,144,538
Less accumulated depreciation for:				
Buildings, improvements, and systems	(3,452,037)	(169,622)	5,168	(3,616,491)
Equipment	(390,432)	(906)	339,910	(51,428)
Total accumulated depreciation	(3,842,469)	(170,528)	345,078	(3,667,919)
Total capital assets being depreciated, net	3,647,147	(170,528)	-	3,476,619
Business-type activities capital assets, net	<u>\$ 3,706,440</u>	<u>\$ (170,528)</u>	<u>\$ -</u>	<u>\$ 3,535,912</u>

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 38,217
Public safety	938
Public works	254,907
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>138,492</u>

Total depreciation expense – governmental activities **\$ 432,554**

Business-type activities:

Parks	\$ 57,405
Sewer	42,172
Water	<u>70,951</u>

Total depreciation expense – business-type activities **\$ 170,528**

D. Accounts payable and accrued liabilities

Payables are comprised of the following:

	Governmental Activities	Business- Type Activities
Accounts payable	\$ 95,791	\$ 64,617
Deposits payable	-	4,970
Accrued liabilities	<u>36,381</u>	<u>41,320</u>
	<u>\$ 132,172</u>	<u>\$ 110,907</u>

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

E. Interfund receivables, payables and transfers

At June 30, 2007, the interfund receivables and payables were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General fund	\$ 80,073	\$ 25,000
Non-major governmental funds	43,667	72,071
Sewer Enterprise Fund	-	68,825
Water Enterprise Fund	2,156	-
Vehicle and Equipment Internal Service Fund	<u>40,000</u>	<u>-</u>
	<u>\$ 165,896</u>	<u>\$ 165,896</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. In addition, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Fund.

For the year ended June 30, 2007, the General Fund reported a transfer out of \$25,000 to non-major governmental funds.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Long-term debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$4,024,990. No general obligation bonds were issued during the current year.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds are issued as 10-26 year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Due</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities:				
2003 GRSD Authority				
General Obligation				
Limited Tax Bonds	2029	\$94,530 - \$219,885	2.00-4.70%	<u>\$ 3,230,460</u>

Debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ended June 30</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 96,585	\$ 132,178	\$ 228,763
2009	100,695	129,155	229,850
2010	102,750	125,977	228,727
2011	106,860	122,568	229,428
2012	110,970	118,753	229,723
2013-2017	616,500	527,391	1,143,891
2018-2022	741,855	394,393	1,136,248
2023-2027	922,695	212,237	1,134,932
2028-2029	431,550	20,476	452,026
	<u>\$ 3,230,460</u>	<u>\$ 1,783,128</u>	<u>\$ 5,013,588</u>

Installment Purchase Contracts

The City enters into installment purchase agreements to finance the acquisition of certain equipment. The original amount of the agreement entered into in prior years for the contract listed below was \$500,000. Installment purchase contracts outstanding at year end are as follows:

<u>Purpose</u>	<u>Due</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Amount</u>
Government activities:				
2005 Equipment Purchase	2010	\$91,915	3.3%	\$ 303,534
2007 Vehicle Purchase	2009	\$7,252	6.8%	<u>13,149</u>
				<u>\$ 316,683</u>

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

Debt service requirements to maturity for installment purchase contracts are as follows:

Year Ended June 30	Governmental Activities		
	Principal	Interest	Total
2008	\$ 89,561	\$ 9,606	\$ 99,167
2009	92,765	6,403	99,168
2010	88,836	3,079	91,915
2011	45,521	437	45,958
	\$ 316,683	\$ 19,525	\$ 336,208

Revenue Bonds

The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years for the two bonds listed below was \$905,000. No revenue bonds were issued during the current year. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Due</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities:				
1993 Water Supply System	2008	\$10,000-\$45,000	4.50-6.00%	\$ 45,000
1996 Water Supply System	2008	\$65,000-\$90,000	3.85-5.10%	65,000
				<u>\$ 110,000</u>

Debt service requirements to maturity for revenue bonds are as follows:

Year Ended June 30	Business-Type Activities		
	Principal	Interest	Total
2008	\$ 110,000	\$ 6,015	\$ 116,015

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

Changes in Long-term Liabilities

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
General Obligation					
Bonds	\$ 175,000	\$ -	\$ (175,000)	\$ -	\$ -
Installment Purchase					
Contracts	384,056	20,401	(87,774)	316,683	89,561
Compensated Absences	<u>28,608</u>	<u>47,792</u>	<u>(44,266)</u>	<u>32,134</u>	<u>20,195</u>
Government activity long-term liabilities	<u>\$ 587,664</u>	<u>\$ 68,193</u>	<u>\$ (307,040)</u>	<u>\$ 348,817</u>	<u>\$ 109,756</u>
Business-type activities:					
Revenue Bonds	\$ 215,000	\$ -	\$ (105,000)	\$ 110,000	\$ 110,000
General Obligation					
Limited Tax Bonds	3,324,990	-	(94,530)	3,230,460	96,585
Compensated Absences	<u>17,238</u>	<u>14,269</u>	<u>(13,355)</u>	<u>18,152</u>	<u>6,487</u>
Business-type activity long-term liabilities	<u>\$ 3,557,228</u>	<u>\$ 14,269</u>	<u>\$ (212,885)</u>	<u>\$3,358,612</u>	<u>\$ 213,072</u>

The internal service fund predominantly serves the governmental funds. Accordingly, long-term liabilities for it are included as part of the above totals for governmental activities. Also, for the governmental activities, compensated absences are generally liquidated by the general fund.

G. Segment information--enterprise funds

The government issued revenue bonds to finance certain improvements to its water and sewer systems. Because the Parks Fund, Water Fund and the Sewer Fund are each reported as major funds in the fund financial statements and account entirely for a specific segment, disclosures are not required herein.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2007, the City carried insurance through various commercial carriers, including the Michigan Municipal League, to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

B. Property taxes

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Berrien County.

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the City for the 2006 levy were assessed and equalized at \$99,631,470 (not including properties subject to Industrial Facilities Tax exemption), representing 40.4% of estimated current market value. The City's general operating tax rate for fiscal year 2006-07 was 14.7001 mills.

C. Defined benefit pension plan

Effective July 1, 2005, the City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

The City is required to contribute at an actuarially determined rate; the current rate is 7.60% of annual covered payroll. City employees are required to contribute 2.0% of their annual covered payroll. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City.

For the year ended June 30, 2007, the City's annual pension cost of \$43,358 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit.

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 25 years.

Three-Year Trend Information *

<u>Years Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2006	\$ 41,351	100%	\$ -
2007	43,358	100	-

Schedule of Funding Progress *

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL) Entry Age</u>	<u>(b-a) Unfunded AAL (UAAL)</u>	<u>Funded Ratio Total</u>	<u>(c) Covered Payroll</u>	<u>((b-a)/c) UAAL as a Percentage of Covered Payroll</u>
12/31/05	\$326,605	\$753,794	\$(427,189)	43%	\$532,046	80%
12/31/06	424,223	830,940	(406,717)	51%	632,106	64%

* - Because the City's participation in MERS began on July 1, 2005, only two-year's information is available.

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

D. Construction code fees

The City oversees building construction, in accordance with the State's construction code act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since July 1, 2006 is as follows:

Building permit revenue	\$ 24,028
Related expenses:	
Building inspector	<u>(26,599)</u>
Shortfall	<u><u>\$ (2,571)</u></u>

E. Investment in the Galien River Sanitary District

The Galien River Sanitary District Sewer Authority (the "Authority") is a legally separate entity, created through a joint venture by area governments in Berrien County, Michigan. The City of Bridgman became a constituent member (owner) of the Authority in 2004.

Participating municipalities and their respective shares of ownership are as follows:

	<u>Percent Of Ownership</u>
Chikaming Township	28.6%
New Buffalo City	21.6%
New Buffalo Township	16.6%
Lake Charter Township	16.6%
Bridgman City	<u>16.6%</u>
	<u>100.0%</u>

CITY OF BRIDGMAN, MICHIGAN

Notes to the Financial Statements

The City of Bridgman is accounting for its investment in the Authority as a joint venture in accordance with GASB Statement 14. Information presented below is taken from financial statements of the Authority for the year ended December 31, 2006, audited by other auditors, whose report dated May 11, 2007, expressed an unqualified opinion on those statements.

Summary information of the city of Bridgman's investment in the Authority for the year ended June 30, 2007, is as follows:

	Total GRSD Authority	City of Bridgman 16.6%
Total assets	\$ 15,397,217	\$ 2,555,938
Total liabilities	59,521	9,880
Net assets	\$ 15,337,696	\$ 2,546,058
Operating revenues	\$ 1,724,310	\$ 286,235
Operating expenses	1,686,721	279,996
Operating income	37,589	6,240
Non-operating income	34,806	5,778
Change in net assets	72,395	12,018
Net assets, beginning of year	15,265,301	2,534,040
Net assets, end of year	\$ 15,337,696	\$ 2,546,058

Complete financial statements for the Galien River Sanitary District Sewer Authority may be obtained at the Authority's administrative office.

Galien River Sanitary District Sewer Authority
10831 Kruger Road
New Buffalo MI 49117

* * * * *

SUPPLEMENTARY INFORMATION

CITY OF BRIDGMAN, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	Special Revenue Funds				Debt Service		Total
	Major Streets	Local Streets	Public Improvement	Economic Development	General	Building Authority	Governmental Funds
<u>ASSETS</u>							
Assets							
Cash and cash equivalents	\$ 283,091	\$ 13,388	\$ 4,384	\$ -	\$ 159,835	\$ 120,485	\$ 581,183
Special assessments receivable	-	-	40,928	-	-	-	40,928
Due from other governments	21,050	7,184	-	-	-	-	28,234
Due from other funds	-	10,000	18,667	15,000	-	-	43,667
Prepaid items	524	579	-	-	-	-	1,103
<u>TOTAL ASSETS</u>	\$ 304,665	\$ 31,151	\$ 63,979	\$ 15,000	\$ 159,835	\$ 120,485	\$ 695,115
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities							
Accounts payable	\$ 2,268	\$ 1,307	\$ 4,384	\$ -	\$ -	\$ -	\$ 7,959
Accrued liabilities	706	757	-	-	-	-	1,463
Due to other funds	20,000	20,000	-	10,226	21,845	-	72,071
Deferred revenue	-	-	40,928	-	-	-	40,928
Total liabilities	22,974	22,064	45,312	10,226	21,845	-	122,421
Fund balances:							
Reserved for prepaid items	524	579	-	-	-	-	1,103
Unreserved, undesignated	281,167	8,508	18,667	4,774	137,990	120,485	571,591
Total fund balances	281,691	9,087	18,667	4,774	137,990	120,485	572,694
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 304,665	\$ 31,151	\$ 63,979	\$ 15,000	\$ 159,835	\$ 120,485	\$ 695,115

CITY OF BRIDGMAN, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	Special Revenue Funds				Debt Service		Total
	Major Streets	Local Streets	Public Improvement	Economic Development	General	Building Authority	Governmental Funds
Revenues							
Special assessments	\$ -	\$ -	\$ 15,270	\$ -	\$ -	\$ -	\$ 15,270
Intergovernmental	128,478	45,348	-	-	-	-	173,826
Investment earnings	12,757	8,266	3,373	-	18,415	104	42,915
Rent	-	-	-	-	-	175,000	175,000
Other	-	-	2,200	-	-	-	2,200
Total revenues	141,235	53,614	20,843	-	18,415	175,104	409,211
Expenditures							
Current:							
Highways and streets	69,702	61,396	-	-	-	-	131,098
Other	-	-	64,750	11,578	-	-	76,328
Debt service:							
Principal	-	-	-	-	-	175,000	175,000
Interest and fiscal charges	-	-	-	-	-	4,456	4,456
Total expenditures	69,702	61,396	64,750	11,578	-	179,456	386,882
Revenues over (under) expenditures	71,533	(7,782)	(43,907)	(11,578)	18,415	(4,352)	22,329
Other financing sources							
Transfers in	-	10,000	-	15,000	-	-	25,000
Net change in fund balances	71,533	2,218	(43,907)	3,422	18,415	(4,352)	47,329
Fund balances, beginning of year	210,158	6,869	62,574	1,352	119,575	124,837	525,365
Fund balances, end of year	<u>\$ 281,691</u>	<u>\$ 9,087</u>	<u>\$ 18,667</u>	<u>\$ 4,774</u>	<u>\$ 137,990</u>	<u>\$ 120,485</u>	<u>\$ 572,694</u>

CITY OF BRIDGMAN, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Major Streets
For the Year Ended June 30, 2007

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 136,500	\$ 126,500	\$ 128,478	\$ 1,978
Investment earnings	2,800	10,000	12,757	2,757
Total revenues	139,300	136,500	141,235	4,735
Expenditures				
Highways and streets:				
Routine maintenance	40,100	35,100	32,376	(2,724)
Traffic services	6,100	11,400	11,855	455
Winter services	33,000	26,400	25,471	(929)
Total expenditures	79,200	72,900	69,702	(3,198)
Net change in fund balance	60,100	63,600	71,533	7,933
Fund balance, beginning of year	210,158	210,158	210,158	-
Fund balance, end of year	\$ 270,258	\$ 273,758	\$ 281,691	\$ 7,933

CITY OF BRIDGMAN, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Local Streets
For the Year Ended June 30, 2007

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 42,100	\$ 43,600	\$ 45,348	\$ 1,748
Investment earnings	6,000	6,000	8,266	2,266
Total revenues	48,100	49,600	53,614	4,014
Expenditures				
Highways and streets:				
Routine maintenance	38,400	37,500	38,213	713
Traffic services	2,900	6,500	5,741	(759)
Winter services	21,400	17,900	17,442	(458)
Total expenditures	62,700	61,900	61,396	(504)
Revenues (under) expenditures	(14,600)	(12,300)	(7,782)	4,518
Other financing sources				
Transfers in	15,000	12,300	10,000	(2,300)
Net change in fund balance	400	-	2,218	2,218
Fund balance, beginning of year	6,869	6,869	6,869	-
Fund balance, end of year	\$ 7,269	\$ 6,869	\$ 9,087	\$ 2,218

CITY OF BRIDGMAN, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Public Improvement
For the Year Ended June 30, 2007

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Special assessments	\$ 11,100	\$ -	\$ 15,270	\$ 15,270
Investment earnings	3,400	-	3,373	3,373
Other	-	-	2,200	2,200
Total revenues	14,500	-	20,843	20,843
Expenditures				
Other - public improvement	583,000	44,400	64,750	20,350
Revenues over (under) expenditures	(568,500)	(44,400)	(43,907)	493
Other financing sources				
Transfers in	280,000	50,000	-	(50,000)
Net change in fund balance	(288,500)	5,600	(43,907)	(49,507)
Fund balance, beginning of year	62,574	62,574	62,574	-
Fund balance (deficit), end of year	\$ (225,926)	\$ 68,174	\$ 18,667	\$ (49,507)

CITY OF BRIDGMAN, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Economic Development
For the Year Ended June 30, 2007

	Budgeted Amounts			Actual Over (Under) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Expenditures				
Other - general administration	\$ -	\$ -	\$ 11,578	\$ 11,578
Other financing sources				
Transfers in	<u>30,000</u>	<u>12,000</u>	<u>15,000</u>	<u>3,000</u>
Net change in fund balance	30,000	12,000	3,422	(8,578)
Fund balance, beginning of year	<u>1,352</u>	<u>1,352</u>	<u>1,352</u>	<u>-</u>
Fund balance, end of year	<u>\$ 31,352</u>	<u>\$ 13,352</u>	<u>\$ 4,774</u>	<u>\$ (8,578)</u>

STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of Bridgman's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and requires supplementary information says about the city's overall financial health

Contents	Pages
Financial Trends <i>These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.</i>	54-58
Revenue Capacity <i>These schedules contain information to help the reader assess the factors affecting the city's ability to generate its property taxes.</i>	59-62
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.</i>	63-67
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place and to help make comparisons over time and with other governments.</i>	68-69
Operating Information <i>These schedules contain information about the city's operations and resources to help the reader understand how the city's financial information relates to the services the city provides and the activities it performs.</i>	70-72

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented Statement 34 in 2001; schedules presenting government-wide information include information beginning in that year.

CITY OF BRIDGMAN, MICHIGAN
Net Assets by Component
Last Seven Fiscal Years

	Fiscal Year						
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Governmental activities							
Invested in capital assets, net of related debt	\$ 5,513,427	\$ 5,947,381	\$ 5,794,862	\$ 5,694,849	\$ 5,742,587	\$ 5,597,324	\$ 5,611,635
Restricted	477,527	503,323	439,866	459,601	434,601	520,900	591,195
Unrestricted	1,968,536	1,654,091	1,831,839	1,849,088	1,664,161	1,859,342	1,996,157
Total governmental activities net assets	\$ 7,959,490	\$ 8,104,795	\$ 8,066,567	\$ 8,003,538	\$ 7,841,349	\$ 7,977,566	\$ 8,198,987
Business-type activities							
Invested in capital assets, net of related debt	\$ 3,418,724	\$ 3,557,696	\$ 3,560,677	\$ 3,543,889	\$ 3,547,524	\$ 3,491,440	\$ 3,425,912
Unrestricted	1,136,882	1,249,918	1,492,216	87,877	(172,405)	(269,471)	(242,379)
Total business-type activities net assets	\$ 4,555,606	\$ 4,807,614	\$ 5,052,893	\$ 3,631,766	\$ 3,375,119	\$ 3,221,969	\$ 3,183,533
Primary government							
Invested in capital assets, net of related debt	\$ 8,932,151	\$ 9,505,077	\$ 9,355,539	\$ 9,238,738	\$ 9,290,111	\$ 9,088,764	\$ 9,037,547
Restricted	477,527	503,323	439,866	459,601	434,601	520,900	591,195
Unrestricted	3,105,418	2,904,009	3,324,055	1,936,965	1,491,756	1,589,871	1,753,778
Total primary government net assets	\$ 12,515,096	\$ 12,912,409	\$ 13,119,460	\$ 11,635,304	\$ 11,216,468	\$ 11,199,535	\$ 11,382,520

Source: City of Bridgman Treasurer's Department

CITY OF BRIDGMAN, MICHIGAN
Statement of Activities
Last Seven Fiscal Years

	Fiscal Year						
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Expenses							
Governmental activities							
General government	\$ 332,590	\$ 346,501	\$ 361,480	\$ 449,860	\$ 420,647	\$ 549,009	\$ 560,048
Public safety	335,614	379,343	399,560	434,042	411,019	521,868	521,868
Public works	252,294	68,077	161,932	240,407	555,602	316,746	381,149
Highways and streets	303,825	408,491	436,368	159,845	154,813	145,868	384,632
Other governmental activities	304,738	307,248	364,354	634,547	665,505	568,737	-
Interest on long-term debt	72,014	57,642	44,430	31,471	27,289	26,349	14,697
Total governmental activities expenses	1,601,075	1,567,302	1,768,124	1,950,172	2,234,875	2,128,577	1,862,394
Business-type activities							
Parks	218,319	214,646	246,152	233,410	255,393	260,185	267,916
Sewer	410,596	298,381	309,382	1,882,112	595,219	607,269	527,498
Water	414,461	356,970	355,757	458,093	393,287	367,445	385,042
Total business-type activities expenses	1,043,376	869,997	911,291	2,573,615	1,243,899	1,234,899	1,180,456
Total primary government expenses	2,644,451	2,437,299	2,679,415	4,523,787	3,478,774	3,363,476	3,042,850
Program Revenues							
Governmental activities							
Charges for services							
General government	17,785	2,858	3,766	2,961	6,742	4,911	2,008
Public safety	6,752	8,215	7,084	8,167	9,818	12,037	9,011
Other governmental activities	51,000	51,000	125,080	127,309	132,600	-	-
Operating grants and contributions	163,177	174,181	174,706	188,950	184,052	181,721	176,779
Capital grants and contributions	225,545	-	-	(1,525)	-	20,232	-
Total governmental activities program revenues	464,259	236,254	310,636	325,862	333,212	218,901	187,798
Business-type activities							
Charges for services							
Parks	138,227	133,371	148,308	146,068	170,059	179,065	182,776
Sewer	299,032	290,273	313,843	448,503	473,588	547,268	612,093
Water	325,662	313,522	370,333	344,711	321,459	342,394	330,509
Capital grants and contributions	526,859	132,741	41,159	-	14,568	-	-
Total business-type activities program revenues	1,289,780	869,907	873,643	939,282	979,674	1,068,727	1,125,378
Total primary government revenues	1,754,039	1,106,161	1,184,279	1,265,144	1,312,886	1,287,628	1,313,176

continued ...

CITY OF BRIDGMAN, MICHIGAN
Statement of Activities
Last Seven Fiscal Years

	Fiscal Year						
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Net (Expense)/Revenue							
Governmental activities	\$(1,136,816)	\$(1,331,048)	\$(1,457,488)	\$(1,624,310)	\$(1,901,663)	\$(1,909,676)	\$(1,674,596)
Business-type activities	246,404	(90)	(37,648)	(1,634,333)	(264,225)	(166,172)	(55,078)
Total primary government net expense	(890,412)	(1,331,138)	(1,495,136)	(3,258,643)	(2,165,888)	(2,075,848)	(1,729,674)
General Revenues and Other Changes in Net Assets							
Governmental activities							
Property taxes	1,278,877	1,329,086	1,372,011	1,415,100	1,414,401	1,481,646	1,489,802
Grants and contributions not restricted to specific programs	343,815	305,795	291,762	332,077	264,868	258,436	268,726
Unrestricted investment earnings	138,052	71,372	25,437	21,104	60,205	98,492	137,489
Gain on sale of capital assets	22,891	100	50	-	-	-	-
Transfers - internal activities	(155,000)	(230,000)	(270,000)	(207,000)	-	-	-
Total governmental activities	1,628,635	1,476,353	1,419,260	1,561,281	1,739,474	1,838,574	1,896,017
Business-type activities							
Grants and contributions not restricted to specific programs	10,628	11,728	8,203	3,569	3,958	2,954	2,483
Unrestricted investment earnings	68,303	10,370	4,724	2,637	3,620	10,068	14,159
Transfers - internal activities	155,000	230,000	270,000	207,000	-	-	-
Total business-type activities	233,931	252,098	282,927	213,206	7,578	13,022	16,642
Total primary government	1,862,566	1,728,451	1,702,187	1,774,487	1,747,052	1,851,596	1,912,659
Change in Net Assets							
Governmental activities	491,819	145,305	(38,228)	(63,029)	(162,189)	(71,102)	221,421
Business-type activities	480,335	252,008	245,279	(1,421,127)	(256,647)	(153,150)	(38,436)
Total primary government	\$ 972,154	\$ 397,313	\$ 207,051	\$(1,484,156)	\$ (418,836)	\$ (224,252)	\$ 182,985

Source: City of Bridgman Treasurer's Department

CITY OF BRIDGMAN, MICHIGAN
Fund Balances, Governmental Funds
Last Ten Fiscal Years

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Fund										
Reserved	\$ 1,753	\$ -	\$ -	\$ 5,099	\$ 6,726	\$ 6,322	\$ 6,158	\$ 60,411	\$ 7,552	\$ 12,338
Unreserved	829,592	1,129,983	1,313,226	1,318,585	999,219	1,077,888	1,157,480	1,178,455	1,427,977	1,733,181
Total general fund	831,345	1,129,983	1,313,226	1,323,684	1,005,945	1,084,210	1,163,638	1,238,866	1,435,529	1,745,519
All Other Governmental Funds										
Reserved	35,568	75,026	66,216	719	458	-	1,125	-	1,189	1,103
Unreserved, reported in:										
Special revenue funds	50,007	63,321	90,164	189,682	224,079	166,621	218,362	213,071	279,764	313,116
Debt service funds	266,926	203,782	206,743	287,126	278,786	273,245	240,114	201,689	244,412	258,475
Total all other governmental funds	352,501	342,129	363,123	477,527	503,323	439,866	459,601	414,760	525,365	572,694
Total governmental funds	\$ 1,183,846	\$ 1,472,112	\$ 1,676,349	\$ 1,801,211	\$ 1,509,268	\$ 1,524,076	\$ 1,623,239	\$ 1,653,626	\$ 1,960,894	\$ 2,318,213

Source: City of Bridgman Treasurer's Department

CITY OF BRIDGMAN, MICHIGAN
Change in Fund Balances, Governmental Funds
Last Seven Fiscal Years

	Fiscal Year						
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Revenues							
Property taxes	\$ 1,278,877	\$ 1,329,086	\$ 1,372,011	\$ 1,415,100	\$ 1,414,401	\$ 1,481,646	\$1,489,802
Special assessments	111,890	103,602	73,750	83,834	42,627	41,204	17,519
Intergovernmental	442,459	441,105	419,101	465,085	413,287	407,435	397,632
Charges for services	18,108	3,085	4,176	3,590	7,149	5,478	2,443
Investment earnings	114,452	70,602	19,657	15,221	56,608	98,492	137,489
Licenses and permits	32,232	35,694	37,655	40,055	32,997	29,297	45,673
Fines and forfeitures	6,429	7,988	6,674	7,538	9,411	11,470	8,576
Rent	51,000	51,000	125,080	127,309	132,600	175,000	175,000
Other	32,301	3,177	9,713	4,787	2,636	3,425	2,200
Total revenues	2,087,748	2,045,339	2,067,817	2,162,519	2,111,716	2,253,447	2,276,334
Expenditures							
General government	292,888	315,712	329,289	335,222	353,429	334,057	363,227
Public safety	396,703	420,153	437,047	465,428	412,074	485,433	495,713
Public works	158,742	194,506	171,973	202,315	189,031	202,575	219,599
Highways and streets	201,972	161,077	185,108	159,845	154,813	145,868	131,098
Other	471,315	669,244	402,424	447,608	776,322	605,903	529,922
Debt service:							
Principal	235,000	290,000	215,000	215,000	175,000	160,000	175,000
Interest and fiscal charges	70,346	56,690	42,218	30,938	20,660	12,343	4,456
Total expenditures	1,826,966	2,107,382	1,783,059	1,856,356	2,081,329	1,946,179	1,919,015
Excess of revenues over (under) expenditures	260,782	(62,043)	284,758	306,163	30,387	307,268	357,319
Other Financing Sources (Uses)							
Transfers in	436,054	588,300	225,800	85,000	305,000	155,000	25,000
Transfers out	(591,054)	(818,300)	(495,800)	(292,000)	(305,000)	(155,000)	(25,000)
Proceeds from sale of capital assets	11,303	100	50	-	-	-	-
Total other financing sources (uses)	(143,697)	(229,900)	(269,950)	(207,000)	-	-	-
Net change in fund balances	\$ 117,085	\$ (291,943)	\$ 14,808	\$ 99,163	\$ 30,387	\$ 307,268	\$ 357,319
Debt service as a percentage of noncapital expenditures	20.1%	19.7%	16.9%	15.3%	10.4%	9.7%	10.3%

Source: City of Bridgman Treasurer's Department

Schedule 5
Unaudited

CITY OF BRIDGMAN, MICHIGAN
Equalized Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Residential Property	Commercial Property	Industrial Property	Agricultural Property	Total Assessed Value	City Operating Millage
2007	\$ 97,261,350	\$ 13,333,150	\$ 7,189,350	\$ - *	\$ 117,783,850	14.7001
2006	96,214,500	12,568,300	7,085,600	8,232,200	124,100,600	14.6824
2005	91,844,405	11,118,800	7,632,700	8,232,200	118,828,105	14.9270
2004	79,540,600	11,043,100	9,377,200	6,111,000	106,071,900	15.0156
2003	74,604,300	10,548,900	8,200,205	6,111,000	99,464,405	15.1229
2002	74,604,300	10,548,900	6,871,500	6,111,000	98,135,700	15.1624
2001	71,211,800	10,197,200	10,345,200	4,759,000	96,513,200	15.2020
2000	65,509,600	9,613,800	9,184,200	4,759,000	89,066,600	15.2020
1999	61,239,700	9,292,800	8,775,100	2,192,800	81,500,400	15.2020
1998	60,409,400	9,109,900	9,014,000	2,192,800	80,726,100	15.2020

* In fiscal 2007, Michigan Department of Natural Resources property was reclassified as Payment-in-lieu-of-taxes (ILT) property.

CITY OF BRIDGMAN, MICHIGAN
Direct and Overlapping Property Tax Rates
Last Seven Fiscal Years

Fiscal Year Ended June 30,	Overlapping Rates*										
	City Direct Rate	City Library Operating	Bridgman Public Schools	State Education Tax	Berrien			Lake Michigan College	Berrien County	Totals	
					Intermediate School District	Homestead	Non- Homestead				
2007	14.7001	1.7111	8.8760	6.0000	2.3775		1.7916	5.6800	32.7603	41.1363	
2006	14.6824	1.7090	8.8760	6.0000	2.3890		1.8060	5.7065	32.7929	41.1689	
2005	14.9270	1.7376	8.8760	6.0000	2.3998		1.8174	5.6677	33.0495	41.4255	
2004	15.0156	1.7480	9.3760	5.0000	2.4042		1.8209	5.6769	32.6656	41.0416	
2003	15.1229	1.7509	8.3760	6.0000	2.4326		1.8481	5.7410	32.8955	41.2715	
2002	15.1624	1.7555	8.3719	6.0000	2.4377		1.8492	5.7466	32.9514	41.3233	
2001	15.2020	1.7601	8.3760	6.0000	2.4475		1.8560	5.7705	33.0361	41.4121	

* Overlapping rates are those of local and county governments that apply to property owners within the City of Bridgman.

Schedule 7
Unaudited

CITY OF BRIDGMAN, MICHIGAN
Principal Property Taxpayers
Current Year and Six Years Ago *

Taxpayer	Fiscal 2007			Fiscal 2001		
	Total Taxable Valuation (1)	Rank	Percentage of Total Taxable Value	Total Taxable Valuation (1)	Rank	Percentage of Total Taxable Value
BLC Corporation/American Electric Power	\$ 2,166,100	1	2.15%	\$ 696,600	9	0.81%
ICG Berrien	1,888,960	2	1.87%			
PIA Properties LLC	1,297,597	3	1.29%			
Jordan's Nursing Home	1,175,981	4	1.17%	1,122,000	7	1.31%
Bridgman Michigan LLC	998,709	5	0.99%	1,084,941	8	1.26%
Great Lakes Metal Stamping	912,200	6	0.90%	1,068,400	6	1.24%
Bridgman Estates	856,638	7	0.85%			
Robert Bosch Corporation	557,954	8	0.55%	672,243	10	0.78%
BridgmanBuilding Associates	500,717	9	0.50%			
Miles, Michael (Individual)	472,820	10	0.47%			
Pemco Die Casting				3,617,169	1	4.21%
Gast Manufacturing				3,086,592	2	3.59%
Weldun International				2,471,627	3	2.88%
Ad-Co Die Casting Corp.				1,938,313	4	2.26%
Michigan Department of Natural Resources				1,530,304	5	1.78%
	<u>\$ 10,827,676</u>		<u>10.74%</u>	<u>\$ 17,288,189</u>		<u>20.12%</u>

Includes ad valorem and Industrials Facilities Tax property. Excludes personal property.

* - Information prior to fiscal year 2001 is not readily available.

Schedule 8
Unaudited

CITY OF BRIDGMAN, MICHIGAN
Property Tax Levied and Collections
Last Seven Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Current Tax Collections	Percentage of Levy Collected
<hr/>	<hr/>	<hr/>	<hr/>
2007	\$ 1,493,972	\$ 1,493,972	100%
2006	1,481,646	1,481,646	100%
2005	1,414,401	1,414,401	100%
2004	1,415,100	1,338,578	100%
2003	1,372,011	1,372,011	100%
2002	1,329,086	1,329,086	100%
2001	1,278,877	1,278,877	100%

Unpaid summer property taxes roll over onto the winter tax bill with a 4% penalty. Taxes are, therefore, not considered delinquent until March 1. At that time, delinquent ad valorem and personal property taxes are purchased by Berrien County and are no longer the city's responsibility to collect.

CITY OF BRIDGMAN, MICHIGAN
Ratios of Outstanding Debt by Type
Last Seven Fiscal Years

Fiscal Year Ended June 30,	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Taxable Value	Per Capita
	General Obligation Bonds	Special Assessment Bonds	Installment Purchase Contracts	Revenue Bonds	General Obligation Bonds				
2007	\$ -	\$ -	\$ 316,683	\$ 110,000	\$ 3,230,460	\$ 3,657,143	3.67 %	1,506	
2006	175,000	-	384,056	215,000	3,324,990	4,099,046	4.13	1,688	
2005	335,000	-	474,229	315,000	3,324,990	4,449,219	4.81	1,832	
2004	485,000	25,000	26,086	410,000	3,324,990	4,271,076	4.61	1,759	
2003	625,000	100,000	55,004	535,000	-	1,315,004	1.47	542	
2002	755,000	185,000	82,953	645,000	-	1,667,953	1.94	687	
2001	910,000	320,000	95,983	750,000	-	2,075,983	2.42	855	

Schedule 10
Unaudited

CITY OF BRIDGMAN, MICHIGAN
Ratio of Net General Bonded Debt to Taxable Value and Per Capita
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Population	Taxable Value (1)	Gross Bonded Debt (2)	Less Debt Service Fund Amounts (3)	Net Bonded Debt	Ratio of	
						Net Bonded Debt to Taxable Value	Net Bonded Debt per Capita
2007	2,428	\$ 99,631,470	\$ 3,230,460	\$ 258,475	\$ 2,971,985	2.98%	\$ 1,224
2006	2,428	99,273,581	3,499,990	244,412	3,255,578	3.28%	1,341
2005	2,428	92,534,356	3,659,990	201,690	3,458,300	3.74%	1,424
2004	2,428	92,559,096	485,000	240,144	244,856	0.26%	101
2003	2,428	89,232,919	625,000	273,245	351,755	0.39%	145
2002	2,428	85,936,633	755,000	278,786	476,214	0.55%	196
2001	2,428	85,946,943	910,000	287,126	622,874	0.72%	257
2000	2,428	80,233,207	1,020,000	121,864	898,136	1.12%	370
1999	2,140	78,579,828	1,140,000	120,289	1,019,711	1.30%	477
1998	2,140	72,827,817	1,260,000	107,939	1,152,061	1.58%	538

(1) Includes ad valorem and personal property tax

(2) Amounts include only general obligation bonds

(3) Represents amounts available for repayment of general obligation bonds

Schedule 11
Unaudited

CITY OF BRIDGMAN, MICHIGAN
Computation of Direct and Overlapping Bonded Debt

	<u>Debt</u> <u>Outstanding</u>	<u>Percentage</u> <u>Applicable</u>	<u>Share of</u> <u>Overlapping</u> <u>Debt</u>
Overlapping:			
Bridgman School District	\$ 1,805,000	13.21%	\$ 238,441
Berrien County	10,546,585	1.75%	184,565
Lake Michigan Community College	7,200,000	1.61%	115,920
Direct:			
City direct debt			3,230,460
			<hr/>
Total overlapping and direct debt			<u>\$ 3,530,945</u>

Source: Municipal Advisory Council of Michigan

CITY OF BRIDGMAN, MICHIGAN
Legal Debt Margin
Last Seven Fiscal Years

Legal Debt Margin Calculation for Fiscal Year 2007:		
Taxable Value		\$104,216,070
Debt Limit (10% of taxable value)		10,421,607
Debt applicable to limit:		
General Obligation Bonds		3,230,460
Less: Amounts available for repayment of general obligation bonds		(258,475)
Total net debt applicable to limit		2,971,985
Legal debt margin		\$ 7,449,622

	Fiscal Year				
	2001	2002	2003	2004	2005
Debt limit	\$ 8,594,694	\$ 8,603,590	\$ 9,458,447	\$ 9,500,570	\$ 9,927,358
Total net debt applicable to limit	774,275	632,236	747,764	805,475	3,861,679
Legal debt margin	\$ 7,820,419	\$ 7,971,354	\$ 8,710,683	\$ 8,695,095	\$ 6,065,679
Total net debt applicable to the limit as a percentage of debt limit	9.01%	7.35%	7.91%	8.48%	38.90%
					37.97%
					28.52%

Note: Article VII, Paragraph II of the Constitution of the State of Michigan of 1963, as amended, states that legal debt level is limited to 10% of the total taxable value.

CITY OF BRIDGMAN, MICHIGAN
Pledged-Revenue Coverage
Last Seven Fiscal Years

Fiscal Year Ended June 30,	Water Revenue Bonds					Sewer Revenue Bonds				
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Total Debt Service Requirement	Coverage	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Total Debt Service Requirement	Coverage
2007	\$ 330,509	\$ 292,918	\$ 37,591	\$ 116,415	0.32	\$ -	\$ -	\$ -	\$ -	-
2006	342,394	268,268	74,126	116,425	0.64	-	-	-	-	-
2005	321,459	287,722	33,737	116,165	0.29	-	-	-	-	-
2004	344,711	230,325	114,386	120,795	0.95	448,503	294,483	154,020	84,157	1.83
2003	373,105	248,471	124,634	114,805	1.09	315,099	263,432	51,667	28,060	1.84
2002	319,650	240,938	78,712	112,880	0.70	294,587	250,951	43,636	29,560	1.48
2001	347,699	295,075	52,624	118,040	0.45	342,949	361,773	(18,824)	26,460	(0.71)

Note: Operating expenses do not include interest, depreciation or amortization expenses.

CITY OF BRIDGMAN, MICHIGAN
Demographic and Economic Information
Last Two Censuses

Population		Per Capita Income		Unemployment Rate		Median Housing Value		Number of Households	
2000	1990	2000	1990 *	2000	1990	2000	1990 *	2000	1990
2,428	2,140	\$25,405	\$18,170	2.3%	4.5%	\$122,600	\$75,892	998	841

* In 2000 dollars

* - Information prior to fiscal year 2006 is not readily available.

CITY OF BRIDGMAN, MICHIGAN
City Government Employees, Officers, Contractors and Volunteers by Function/Program
Last Seven Fiscal Years

Function/Program	2001	2002	2003	2004	2005	2006	2007
Council Members	7	7	7	7	7	7	7
Superintendent and General Office	6	6	6	6	6	6	6
Police							
Full-time	4	4	4	4	4	4	4
On-call	4	4	4	4	4	4	4
Volunteer Firefighters and Officers	15	16	15	17	18	15	20
Water and Sewer/Parks	3	3	3	3	3	3	3
Public Works	3	3	3	4	4	4	4
Total	42	43	42	45	46	43	48

Schedule 17
Unaudited

CITY OF BRIDGMAN, MICHIGAN
Operating Indicators by Function/Programs
Fiscal 2007

Function/Program	
Police	
Physical arrests	145
Parking violations	136
Traffic violations	230
Fire	
Medical responses	153
Fire calls	9
Rescue and extrication	10
Personal injury accident	7
General assistance, investigations and other	11
Total calls	190
Water	
Gallons pumped	966,748
Dollars sold	\$ 263,230
Wastewater	
Gallons treated	689,722
Dollars sold	\$ 588,872

Schedule 18**Unaudited**

CITY OF BRIDGMAN, MICHIGAN
Capital Asset Statistics by Function/Program
Fiscal 2007

Function/Program	
<hr/>	
Area in square miles	2.9
Streets:	
Major (miles)	5.8
Local (miles)	8.4
Number of street lights	243
Parks:	
Beach acreage	40
Number of camp sites	70
Park acreage	8
Number of parks	2
Playgrounds (city owned)	3
Playgrounds (school owned)	1
Water:	
Miles of water mains	25
Number of service connections:	
Combined water and sewer	904
Water only	189
Sewer only	3
Number of fire hydrants	225
Wastewater:	
Miles of sanitary sewers	20
Miles of storm sewers	25



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



December 19, 2007

To the City Council of the
City of Bridgman
Bridgman, Michigan

We have audited the financial statements of the City of Bridgman for the year ended June 30, 2007, and have issued our report thereon dated December 19, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated July 24, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Bridgman. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Bridgman are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Bridgman during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the original cost and accumulated depreciation of its infrastructure capital assets recorded at the time of implementing GASB 34 is based on current replacement costs, and an assumed rate of inflation from the dates of original acquisition/construction.
- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Bridgman's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed various adjustments, all of which were recorded by the City, which in our judgment indicate matters that could have a significant effect on the City of Bridgman's financial reporting process. As a result, we included a significant deficiency in the attached memorandum.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Bridgman's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L' and 'J'.

City of Bridgman

Comments and Recommendations

For the Year Ended June 30, 2007

In planning and performing our audit of the financial statements of the City of Bridgman as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies, as described below, to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Significant Deficiencies

2007-1 Preparation of Financial Statement in Accordance with GAAP

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the government's internal controls.

City of Bridgman

Comments and Recommendations

For the Year Ended June 30, 2007

Cause: This condition was caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible

Officials: The City has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

2007-2 Audit Adjustments

Criteria: The City is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: Certain account balances and year end adjustments were initially not properly calculated. Accordingly, various audit adjustments were required to properly state the City's financial statements

Cause: This condition was the result of various management oversights.

Effect: As a result of this condition, the City's internal accounting records were initially misstated by amounts that were more than inconsequential. All of the adjustments that were proposed during the audit process were reviewed, approved, and posted by management.

Recommendation: We recommend that the City carefully review its year-end adjustments across all funds to ensure that amounts recorded properly agree with the underlying account detail.

View of Responsible

Officials: Management is aware of the new requirement for auditors to report on adjustments proposed during the audit process, and will endeavor to reduce or eliminate the need for such audit adjustments in future periods.

City of Bridgman
Comments and Recommendations
For the Year Ended June 30, 2007

Other Matters

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the City's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the City lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the City's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the City's internal control structure, and cannot be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible. Following are examples of internal controls policies that could be strengthened.

Payroll

Currently, the City does not have a system in place to require an independent review of the payroll register by an authorized individual not responsible for preparing checks. We recommend that the City implement such a procedure to ensure that a review is conducted prior to the issuance of payroll checks.

City of Bridgman
Comments and Recommendations
For the Year Ended June 30, 2007

Journal Entries

As part of our audit, we examined various journal entries to comply with the new Statement on Auditing Standards (SAS) 99. We noted that journal entries are not initialed or signed by someone other than the preparer as a check for journal entry completeness and accuracy. In order to enhance internal controls in this area, we recommend that all journal entries be reviewed, initialed and dated by both the preparer and independent reviewer.

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